GUIDELINES № 001

# DEMONSTRATION OF THE ADDITIONALITY OF THE PROJECT ACTIVITY

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# Introduction

Additionality of project activity shall be demonstrated using a robust assessment that shows the activity would not have occurred in the absence of the incentives from the project, taking into account all relevant national policies, including legislation, and representing mitigation that exceeds any mitigation that is required by law or regulation.

Project activities, the implementation of which is required by law, as well as projects for which the mechanisms of state support are available, cannot be considered as additional.

To demonstrate additionality, an analysis of activities similar to the proposed project activity should be carried out, which is complemented and enhanced by an analysis of investments and/or barriers. The choice of approaches to confirm additionality is summarized on the decision scheme (Fig. 1).

# Scope and application periods

The document provides a general framework for demonstrating and assessing additionality and is applicable to a wide range of project types. Some project types may require adjustments to this general framework, in which case clarifications and/or additions to the applicability of this Guidelines are provided in the respective Climate project methodologies (CPM).

This Guidelines does not replace the need for the baseline methodology. Methodological approaches to determining the baseline are presented in the corresponding Climate project methodologies. Project participants that propose new baseline methodologies shall ensure consistency between the determination of additionality of a project activity and the determination of a baseline scenario.

Additionality should be assessed at the time of the anticipated start of the crediting period and confirmed or revised at the start of the next phases of the crediting period, if the project is carried out in several phases. The duration of the crediting period is specified for each type of project in the relevant Climate project methodology.

When conducting validation of project activities to assess the additionality of the project using these Guidelines, accredited validation and verification bodies (VABs) must carefully evaluate and verify the reliability and validity of all data, justifications, assumptions and documentation provided by the project developers to justify the additionality of the project activities. The findings and conclusions must be transparently documented in a validation report.

# Methodological approaches

The Guidelines provide a step-by-step approach to justifying and evaluating the additionality of project activities. These steps include:

Stap 0. Preliminary Step:

(0.1) Checking whether the proposed project activity is "breakthrough."

(0.2) Checking whether the proposed project activity is a common practice.

Step 1. Identify alternatives to project activities;

Step 2. Justify additionality.

Option 1: Justification that the proposed project activity is not:

- or the most economically or financially attractive;

- or economically or financially feasible without funds from the sale of certified emission reductions (CERs)

Option 2. Identification of barriers to the implementation of the project activity.

## Stap 0. Preliminary Step

At the preliminary stap, it is checked whether the technologies to be used in project activities are included in the list of new promising technologies for which there are no state support mechanisms are available (stap 0.1) or in the list of common practice projects (stap 0.2).

The preliminary stap is stipulated only if there are officially approved lists of new promising technologies and projects of common practice.

If such lists, approved by the relevant Ministries are not available, the Preliminary stap of demonstration of additionality is not applicable.

If officially approved lists of common practice projects are available, the additionality check in accordance with Stap 0.2 is mandatory.

### Stap 0.1. Definition of the project as a "breakthrough" project

In some cases, to prove additionality, you can provide evidence that the project activities plan to use new, promising technologies for which there are no state support mechanisms.

This is not a mandatory step and if it does not apply, it means that the proposed project activity is not a "breakthrough" and the justification of additionality should start from Step 1.

The project is "breakthrough" in the applicable geographical area if it uses a new promising technology, different from technologies implemented by any other activities, which can provide the same result and if there are no state support mechanisms for the technology implemented in the project activity.

The definition of the project as a "breakthrough" can be applied only to technology projects to reduce emissions and only if the choice of crediting period for the project activity is "maximum 10 years without the possibility of extension".

*The result of the preliminary step 0.1:*
If the proposed project is included in the list of promising new technologies with no state funding mechanisms, the proposed project activity is additional.

Otherwise, it is necessary to check whether the proposed project activity is on the list of common practice projects (Step 0.2, if available) or, if there are no common practice project lists, proceed to Step 1.

### Step 0.2. Analysis of common practice

This step serves to determine whether the proposed project activity is a "common practice" used in the country, region or sector.

The analysis of common practice is carried out so that the activities that have become "common practice" gradually abandon support for the carbon market and the market shifted to support new technologies.

Assessment of common practice should be used as a threshold for certain types of projects that have already become common practice.

Projects of common practice may include technologies that either receive (formerly received) state support, or implement the best available technology (BAT) in their industries, or represent widely used technical solutions, which are (were previously) common practice in the relevant industries.

The determination of whether a project is a "common practice" should be made in accordance with approved lists of common practice projects. In the absence of such lists approved by relevant Ministries, Step 0.2 is not applicable.

*Result of Step 0.2:*
If the proposed project activity is on the list of projects considered "common practice," then the proposed project activity is not additional.

If the proposed project activity is not considered a "common practice," then proceed to justify additionality using the approach of Steps 1-2.

## Step 1. Identification of alternatives to the project activity consistent with current laws and regulations

1) Identify realistic and credible alternative(s) available to the project participants or similar project developers that provide outputs or services comparable with the proposed project activity that would be implemented in the absence of a project if

(a) the proposed project activity undertaken without being registered as a project activity;

(b) other realistic alternative scenario(s) would be implemented that that deliver outputs and services with comparable quality, properties and application areas;

(c) continuation of the current situation is applicable (no project activity or other alternatives have been undertaken).

2) The alternative(s) shall be in compliance with all mandatory applicable legal and regulatory requirements, even if these laws and regulations have objectives other than GHG reductions, e.g. to mitigate local air pollution.

*Outcome of Step 1:*
Identified the presence or absence of an alternative development scenario to the project activity, providing results or services comparable to the proposed project activity and corresponding to mandatory legislative and regulatory acts.

- If the proposed project activity is the only alternative amongst the ones considered by the project participants that is in compliance with mandatory regulations with which there is general compliance, then the proposed project activity **is not additional**

- If a realistic and reliable alternative scenario that provides results or services comparable to the proposed project activity, complies with mandatory legislative and regulatory acts is identified, then it is necessary to demonstrate the additionality of the project activity using investment and/or barrier analysis (Step 2).

## Step 2. Option 1. Investment analysis

Investment analysis is carried out in order to determine whether the proposed project activity is not:

- economically or financially feasible, without the revenue from the sale of carbon units (apply Option 1.1 below), or

- the most economically or financially attractive (apply Option 1.2 or Option 1.3 below)

To conduct the investment analysis, use the following sub-steps:

*Choosing the type of analysis*

Determine whether to apply simple cost analysis, investment comparison analysis or benchmark analysis.

If the project activity and the alternatives identified in Step 1 generate no financial or economic benefits other than project related income, then apply the simple cost analysis (Option 1.1). Otherwise, use the investment comparison analysis (Option 1.2) or the benchmark analysis (Option 1.3)

### Option 1.1. Apply simple cost analysis:

Document the costs associated with the project activity and the alternatives identified in Step 1 and demonstrate that there is at least one alternative which is less costly than the project activity

If it is concluded that the proposed project activity is more costly than at least one alternative then the project activity cannot be considered as the most financially attractive.

### Option 1.2. Apply investment comparison analysis

Identify the financial indicator, that is most appropriate for the type of project and decision-making context. For example, indicators such as internal rate of return (IRR), net present value (NPV), cost benefit ratio, or unit cost of service (e.g. levelized cost of electricity production in RUB/kWh or levelized cost of delivered heat in RUB/GJ).

The validity of this indicator for investment analysis is confirmed during the validation of the RIA project.

Present in the project PDD submitted for validation a clear comparison of the financial indicator for the proposed project activity and the alternatives.

If one of the other alternatives has the best indicator (e.g. highest IRR), then the project activity cannot be considered as the most financially attractive.

### Option 1.3. Apply benchmark analysis

Identify the financial/economic indicator, for example, such as IRR, most suitable for the project type.

Present in the project PDD submitted for validation a clear comparison of the financial indicator for the proposed project activity and the financial benchmark. If the project activity has a less favourable indicator (e.g. lower IRR) than the benchmark, then the project activity cannot be considered as financially attractive.

When applying Option 1.2 or Option 1.3, the financial/economic analysis shall be based on parameters that are standard in the market, considering the specific characteristics of the project type, but not linked to the subjective profitability expectation or risk profile of a particular project developer. Only in the particular case where the project activity can be implemented by the project participant, the specific financial/economic situation of the company undertaking the project activity can be considered.

*Calculation and comparison of financial indicators (only applicable to Options 1.2 and 1.3):*

Calculate the suitable financial indicator for the proposed project activity and, in the case of Option 1.2 above, for the other alternatives. Include all relevant costs (including, for example, the investment cost, the operations and maintenance costs), and revenues (excluding CER revenues, but possibly including inter alia subsidies/fiscal incentives, etc., where applicable), and, as appropriate, non-market cost and benefits in the case of public investors if this is standard practice for the selection of public investments in the host country.

Present the investment analysis in a transparent manner and provide all the relevant assumptions, preferably in the project development documentation (PDD), or in separate annexes to the PDD, so that a reader can reproduce the analysis and obtain the same results.

Refer to all critical techno-economic parameters and assumptions (such as capital costs, fuel prices, lifetimes, and discount rate or cost of capital) in such a way that they can be verified.

*Sensitivity analysis (only applicable to Options 1.2 and 1.3)*

Sensitivity analysis shows whether the conclusion regarding the financial/economic attractiveness is robust to reasonable variations in the critical assumptions. The investment analysis provides a valid argument in favour of additionality only if it consistently supports (for a realistic range of assumptions) the conclusion that the project activity is unlikely to be the most financially/economically attractive or financially/economically attractive.

*Outcome of Step 2 (Option 1):*
Identified financially/economically attractiveness of the project compared with realistic and credible alternative scenario(s) or benchmarks.

- If it is concluded that the proposed project activity is unlikely to be the most financially/economically attractive or financially/economically attractive, then **the project activity is additional**.
- Otherwise, unless barrier analysis below is undertaken and indicates that the proposed project activity faces barriers that do not prevent at least one alternative from occurring, **the project activity is considered not additional**.

## Step 2. Option 2. Barrier analysis

This step serves to identify barriers and to assess which alternatives are prevented by these barriers.

If this step is used, determine whether the proposed project activity faces barriers that:

- Prevent the implementation of this type of proposed project activity; and

- Do not prevent the implementation of at least one of the alternatives.

The identification of barriers is a sufficient condition to justify additionality only if the registration of the project activity in the registry as a climate project eliminates the identified barriers.

1) Identify barriers that would prevent the implementation of the proposed project activity

Establish that there are realistic and credible barriers that would prevent the implementation of the proposed activity from being carried out if the project activity was not registered as a project. Such realistic and credible barriers may include, barriers listed in the Order of the Ministry of Economic Development of the Russian Federation dated May 11, 2022 №248:

(a) Investment barriers, other than the economic/financial barriers in investment analysis above,

(b) Technological barriers (availability of technology),

(c) Technical barriers (the possibility of implementing the technology)

(d) Regulatory (the presence of regulatory restrictions on the use of technology),

(e) Socio-ecological (the level of impact on the environment and local communities);

(f) Qualification (availability of the necessary competencies for the implementation of the technology)

(g) Other barriers.

2) Show that the identified barriers would not prevent the implementation of at least one of the alternatives (except the proposed project activity)

In applying barriers analysis, provide transparent and documented evidence and offer evidence, as to how it demonstrates the existence and significance of the identified barriers and whether alternatives are prevented by these barriers. The type of evidence to be provided should include at least one of the following:

(a) Relevant legislation, regulatory information or industry norms;

(b) Relevant (sectoral) studies or surveys (e.g. market surveys, technology studies, etc.) undertaken by universities, research institutions, industry associations, companies, bilateral/multilateral institutions, etc.;

(c) Relevant statistical data from national or international statistics;

(d) Documentation of relevant market data (e.g. market prices, tariffs, rules);

(e) Written documentation of independent expert judgments from industry, educational institutions (e.g. universities, technical schools, training centres), industry associations and others.

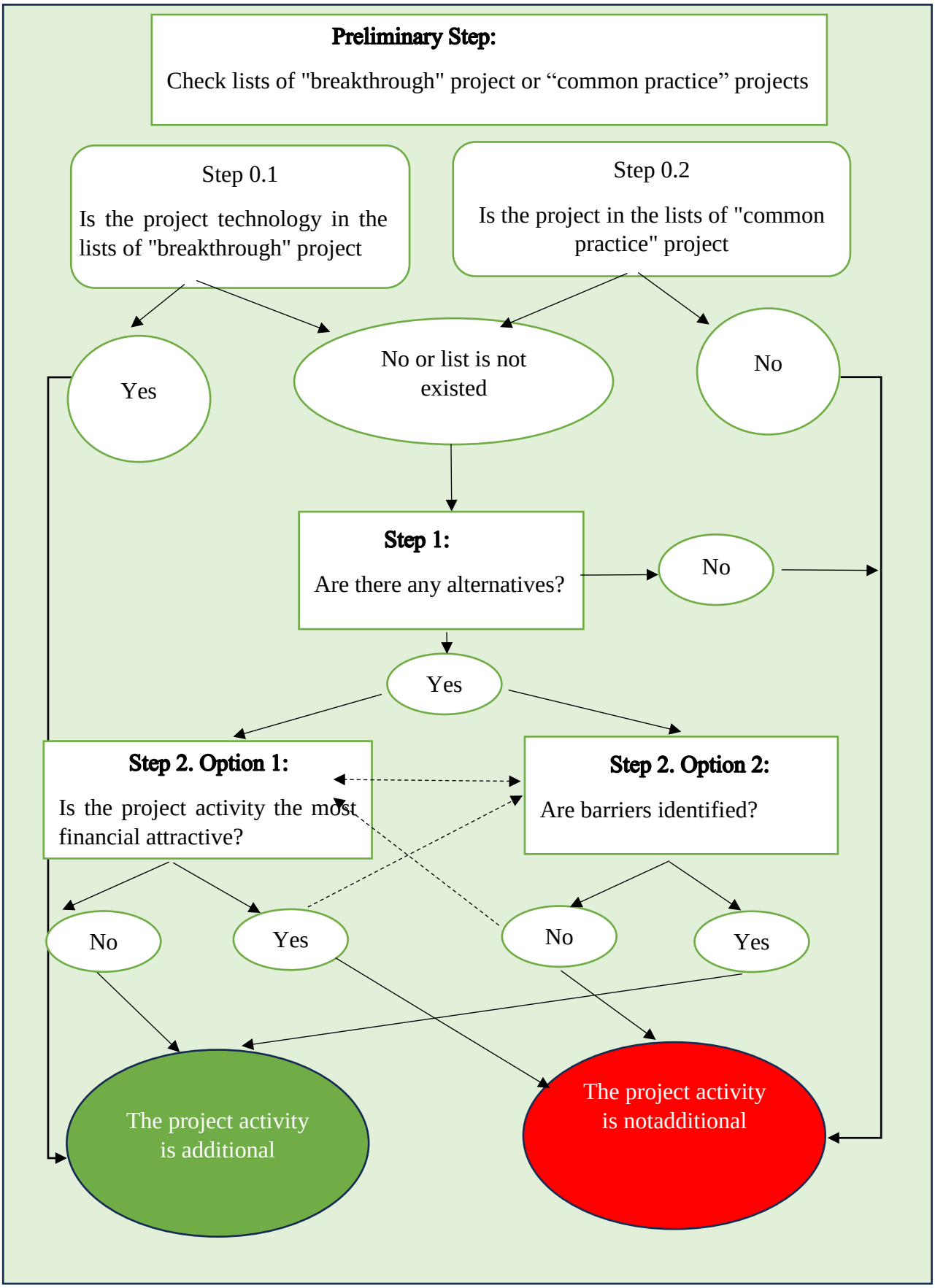
In addition, internal documents of the company can be provided, but the decision on the existence and significance of the identified barriers only on their basis should not be made.

*Outcome of Step 2 (Option 2)*

If the barrier analysis reveals the presence of barriers that would prevent the implementation of project activities, but at the same time do not prevent the implementation of at least one alternative scenario, and the registration of the project activity in the registry as a climate project eliminates the identified barriers, **the project activity is additional**

Otherwise, **the project activity is not additional**.

## Decision scheme



# Refereces

State Standard 14064-3-2021. Greenhouse gases. Part 3. Specification with guidance for the verification and validation of greenhouse gas statements (ISO 14064-3:2019, IDT) https://protect.gost.ru/document1.aspx?control=31&baseC=6&page=8&month=11&year=2021&search=&id=241502

Order of the Ministry of Economic Development of the Russian Federation of May 11, 2022 № 248 "On approval of the criteria and procedure for classifying projects implemented by legal entities, individual entrepreneurs or individuals as climate projects, the form and procedure for submitting a report on the implementation of a climate project" https://www.garant.ru/products/ipo/prime/doc/404669817/

CDM Tool01. Methodological tool/ Tool for the demonstration and assessment of additionality. Version 07.0.0. UNFCCC https://cdm.unfccc.int/methodologies/PAmethodologies/tools/am-tool-01-v7.0.0.pdf

CDM Tool24. Methodological tool. Common practice. Version 03.1. UNFCCC https://cdm.unfccc.int/methodologies/PAmethodologies/tools/am-tool-24-v1.pdf

CDM Tool27. Methodological tool. Investment analysis. Version 08.0. UNFCCC https://cdm.unfccc.int/methodologies/PAmethodologies/tools/am-tool-27-v8.pdf

Guidelines for objective demonstration and assessment of barriers (Version 01) https://cdm.unfccc.int/EB/050/eb50_repan13.pdf